

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)  
501(c)(3) REVENUE BOND FINANCING PROGRAM**

**STAFF REPORT**

**EXECUTIVE SUMMARY**

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<b>Applicant:</b>	California Independent System Operator Corporation (ISO)	<b>Amount Requested:</b>	Not to exceed \$210,000,000
<b>Applicant Description:</b>	The ISO is a California nonprofit public benefit corporation organized to ensure the efficient use and reliable operation of the electric transmission grid within most of the State of California.	<b>Date of Board Meeting:</b>	June 23, 2009
		<b>Resolution Number:</b>	09-24
<b>Project Site:</b>	250 Outcropping Way in Folsom, and 151, 110 and 101 Blue Ravine Road in Folsom, and 1000 S. Fremont Avenue in Alhambra.	<b>Type of Bonds:</b>	New Issue
		<b>Prepared by:</b> Andrea Kennedy and Tara Dunn	
<b>Project Description:</b>	The project (Project) involves the issuance of bonds to finance (i) the construction and development of an approximately 278,000 square foot office headquarters complex, (ii) the acquisition and development of computer hardware and software systems, and (iii) the acquisition of office equipment.		
<b>Uses of Bond Proceeds:</b>	Bond proceeds will be used to pay the costs of the Project, fund capitalized interest, fund a reserve account, and pay costs of issuance.		
<b>Public Benefits:</b>	The ISO acts as the impartial link between entities that generate electrical power and the entities that provide electricity to customers. The Project will enable the ISO to continue to: manage the safe and reliable flow of electricity on California's high-voltage power grid; operate an efficient wholesale energy market; ensure fair and open access to the transmission grid for all qualified users; and provide market and grid information with integrity and impartiality.		
<b>Financing Structure:</b>			
<b>Type of Issue:</b>	Publicly-offered fixed-rate demand bonds issued in minimum denominations of \$5,000 or any integral multiple of \$5,000 in excess thereof.		
<b>Tax Status:</b>	Tax-exempt 501(c)(3) bonds.		
<b>Term:</b>	30 years.		
<b>Credit Enhancement:</b>	None anticipated, however, bond insurance from an insurer rated "A" or higher may be obtained if cost-effective.		
<b>Credit Rating:</b>	The 2009 Bonds are expected to be rated "A-" or higher by Standard & Poor's, Moody's Investors Service, and/or Fitch Ratings Inc. based upon the stand alone ratings of the ISO. Current underlying ISO ratings are A-/A2 by S&P and Moody's, respectively.		
<b>Total Est. Sources of Funds:</b>		<b>Total Est. Uses of Funds:</b>	
2009 Bond Proceeds		2009 Bond Proceeds	\$210,000,000
		Project Component Costs	\$169,084,883
		Debt Service Reserve Fund	14,798,912
		Capitalized Interest	23,723,275
		Cost of Issuance	2,392,930
<b>TOTAL SOURCES</b>		<b>TOTAL USES</b>	<b>\$210,000,000</b>
<b>Financing Team:</b>			
	<b>Bond Counsel:</b>	Stradling Yocca Carlson & Rauth	
	<b>Underwriters:</b>	RBC Capital Markets (Lead), JP Morgan, Bank of America Merrill Lynch	
	<b>Underwriters' Counsel:</b>	Nixon Peabody LLP	
	<b>Financial Advisor:</b>	Sperry Capital Inc.	
	<b>Trustee:</b>	Deutsche Bank National Trust Company	
<b>Staff Recommendation:</b>			
Staff recommends approval of Resolution 09-24, for an amount not to exceed \$210,000,000 for California Independent System Operator Corporation.			

## BACKGROUND AND HISTORY

The California Independent System Operator Corporation (ISO) is a non-profit public benefit corporation incorporated in May 1997 that is responsible for the operation of the long-distance, high voltage power lines that deliver electricity throughout most of California, known as the California Grid, and between the California Grid, neighboring control areas, neighboring states, Canada and Mexico. The ISO's mission is to operate the California Grid reliably and efficiently, provide fair and open transmission access, facilitate effective markets and promote infrastructure development through the provision of timely and accurate information.

The ISO was established as an independent entity to operate the State's electric transmission grid as a result of the wholesale electricity industry restructuring that occurred in the 1990s through federal regulatory actions and subsequent state legislation. In 1998, the ISO assumed operational control of the transmission facilities of the three largest investor-owned electric utilities in California (Pacific Gas and Electric, Southern California Edison, and San Diego Gas and Electric) and since then has assumed operational control of several other transmission-owning entities.

The ISO directs generation and dispatchable power loads to ensure that the supply of power matches demand every few seconds, and has a fundamental role in ensuring the coordination and availability of both generation and transmission resources, both of which are critical to ensuring the availability of reliable and accessible power. The ISO has modified its computer systems and market rules to enhance the robustness of the competitive energy markets, to ensure the reliable operation of the grid and to be responsive to the market participants it serves.

The ISO charges a Grid Management Charge (GMC) to market participants designed to recover the ISO's operating, capital expenditure and debt service costs, and to provide funds for an operating reserve. The GMC rates, which are approved by the Federal Energy Regulatory Commission (FERC), are comprised of several components based on energy volumes and use of the ISO's markets.

The ISO is regulated by FERC and governed by a five-member board appointed by the Governor and confirmed by the State Senate. The Corporate Officers and current members of the ISO's Board of Governors are listed in Appendix A.

## PROJECT DESCRIPTION

The ISO requests the I-Bank to issue bonds to fund (i) the construction and development of an approximately 278,000 square foot office headquarters complex on Iron Point Road (between Outcropping Way and Oak Avenue) in Folsom, California, (ii) the acquisition and development of computer hardware and software systems, and (iii) the acquisition of office equipment (Project).

The ISO currently operates two control centers on a year round, 24-hour, seven day a week basis. The main control center is located in an approximately 158,200 square foot facility in Folsom, California with the data center and control room space of approximately 23,350 square feet. A second approximately 31,000 square feet fully

functioning control center is located in Alhambra and is ready to assume control of the California Grid if needed. The facility that will be constructed using bond proceeds will replace the current Folsom facility, but the second control center will remain and continue to operate as a back-up control room.

The new headquarters will consist of three wings, and will include office space, conference rooms, training rooms, a cafeteria, fitness room, shipping/receiving area, a control center, data center and a mechanical/equipment room (see Appendix B - Project Pictures). The new facility is designed to accommodate 750 employees, allowing for more employees and greater security. The ISO also intends to achieve LEED gold status with the buildings "green" design.

The ISO has completed California Environmental Quality Act (CEQA) compliance procedures and all other significant regulatory approvals related to the property. The ISO intends to transition into the new headquarters facility during fiscal year 2010-2011.

The additional Project components consisting of the acquisition and development of computer hardware and software systems as well as the acquisition of office equipment are expenditures for enhancements to the ISO New Market which is a combination of computer systems and services used for energy management. The ISO New Market replaces outdated computer systems and offers new tools to match electrical supply with demand and resolves transmission constraints. The ISO New Market has been implemented in both the Folsom and Alhambra control centers.

## **FINANCING STRUCTURE**

The California Independent System Operator Corporation is requesting approval for the issuance of bonds in an amount not to exceed \$210,000,000 (the "Bonds"). It is expected that the Bonds will carry a ratings of at least "A-" or higher from Standard & Poor's (S&P), Moody's Investors Service (Moody's) and/or Fitch Ratings Inc. based upon the stand alone ratings of the ISO. The underlying ratings of the ISO are currently A-/A2 from S&P and Moody's, respectively.

In no event shall the Bonds constitute a pledge of the faith and credit of the State or any political corporation, subdivision or agency of the State, and neither the State nor any political corporation, subdivision or agency of the State shall be liable to make any appropriation for the repayment of the Bonds. The Bonds constitute a special obligation of the I-Bank, payable solely from revenues consisting of repayments of the loan provided for in a loan agreement between the I-Bank and the ISO, and other funds held by the Bond Trustee.

## **PUBLIC BENEFITS**

The ISO has an important mission at the center of the State's energy infrastructure. In addition to providing for the reliable operation of the electric grid, the ISO's efficient operation of the wholesale electric market is necessary to further the goal of providing for a low-cost and stable electric power supply in the State. A low-cost and stable electric power supply is vital to the interests of all Californians who depend on electricity for their residential and business needs.

In addition to the reliable operation of the electric grid, the ISO works with the local community to promote green technology education. The new headquarters will contain an educational center housing a Smart Grid Lab showcasing and demonstrating advanced clean engineering technologies as a way to continue to educate and promote the use of green technologies. The ISO works closely with Folsom High School and other nearby schools to promote engineering by offering field trips of the ISO's control room. The ISO has also been asked by Folsom Lake College to assist with developing curriculum for a green certificate program focusing on green technology.

## OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES, Describe: Building permits are required and have been obtained for the new construction.
TEFRA	
Date of TEFRA	June 18, 2009
Publications	<i>The Sacramento Bee</i> <i>The Metropolitan News Enterprise</i>
Oral/Written Comments Received	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
LEGAL QUESTIONNAIRE	
Completed?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES
Issues?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
ELIGIBILITY REVIEW	
Project meets Public Interest Criteria (per G.C. § 63046 and 63047(d)) <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	<ol style="list-style-type: none"> <li>1. The Project is in the State of California.</li> <li>2. The ISO is capable of meeting its obligations incurred under the proposed loan agreement and tax agreement, and, in particular as to its loan repayment obligations which secure the bonds as reflected in the underlying rating of A-/A2 given to the ISO by S&amp;P and Moody's respectively, and the requirement that the Bonds be rated in one of the three highest rating categories by Moody's, Fitch or S&amp;P, without regard to numerical or other qualifiers, based on the ISO's underlying rating alone (without additional security).</li> <li>3. Payments to be made by the ISO to the I-Bank under the proposed loan agreement are adequate to pay the current expenses of the I-Bank in connection with the financing and to make all the scheduled payments on the Bonds.</li> <li>4. The proposed financing is appropriate for the Project.</li> <li>5. The Project is consistent with any existing local or regional comprehensive plans.</li> </ol>
The Project meets the Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities established as guidelines for I-Bank Staff by the Board: <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> NO <input type="checkbox"/> YES      Certificate No.: <input checked="" type="checkbox"/> N/A                      Date:

## RECOMMENDATION

Staff recommends approval of Resolution 09-24, for an amount not to exceed \$210,000,000 for California Independent System Operator Corporation.

## APPENDIX A

### California Independent System Operator

#### **Corporate Officers:**

Yakout Mansour	President and Chief Executive Officer
Stephen Berberich	Vice President of Corporate Services and Interim Chief Financial Officer
Jim Detmers	Vice President of Operations
Karen Edson	Vice President of External Affairs
Nancy Saracino	Vice President, General Counsel and Corporate Secretary
Laura Manz	Vice President of Market and Infrastructure Development

#### **Board of Governors:**

Mason Willrich	Chair
Laura Doll	
Linda Capuano	
Thomas Page	
Vacant	



## APPENDIX B – Project Pictures

